Ontario

Ministry of
Transportation and
Communications

IMPLEMENTING A PERFORMANCE BASED APPROACH TO CANADIAN CONTENT

November, 1984

NORDICITY
GROUP LTD.

NORDICITY GROUP LTD.

20 Richmond Street East,
Suite 425,
Toronto, Ontario,
M5C 2R9
(416) 862-8108

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August, 1984

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Foreword

This report was commissioned by the Ministry of Transportation and Communications (MTC) in Ontario in May of 1984. MTC asked for a study on "the subject of implementing a new method of regulating Canadian content on commercial television".

The new method referred to in MTC's request for proposal from consulting and research companies is performance (ie, audience) based regulation. This method was advanced in MTC's submission* to the Canadian Radio-television and Telecommunications Commission (CRTC).

In the course of preparing this report, Nordicity Group consultants (J. Ruby, L. Edwards, P. Lyman, M. D'Avella, and T. Denton) have met with the following officials: John Coleman, CTV; B. Matthews, CJOH; S. Frenken, CRTC; L. Durr, CRTC; W. Stacey, CAB; R. Elsden, CFPL; D. Mintz, Global; R. Godbeer, Association of Canadian Advertisers; P. Pearson, Straiten, Pearson and Martin; W. Hull, Brock University; D.

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* "Implementation of a Results-Oriented Approach to the Regulation of Canadian Content," November of 1981.

Gale, CHCH; W. McGregor, CKCO; K. Campbell, CUC Ltd; Y. Ameline, ACA; K. Purdye, BBM; C. Gunton, Nielsen; D. McKie, CBC; S. Serafini, DOC; L. Mahoney, CRTC; S. Armstrong, CRTC; P. Nadeau, CAB; T. Clement, BBM; M Kahansky, BBM.

Following an Overview, this report is organised in six sections, beginning with a general introduction to the challenge of regulation and proceeding to exploration of options for implementation of a performance based system. In the course of studying how such a regulatory system could be introduced, Nordicity Group has become increasingly convinced of the need for a significant change in the way control is exercised over the evolution of Canadian broadcasting. Performance based assessment should be a major component of such change.

During the preparation of the analyses necessary for this report, care has been taken to indicate data sources and to qualify estimates where judgements have been necessary. In order to provide sufficient demonstration of application, examples have had to be elaborated at the specific market level and at the station level. For much of the detailed exploration of what a performance base approach would actually mean, the market selected was Toronto/Hamilton and the station, CFTO. These detailed examples should not be construed as having been developed in collaboration with CFTO, nor by their use, as to CFTO's concurrance with the

content of this report. In addition to Nordicity Group estimates, all data used are based on publicly available material.

Overview

The Nordicity Group was asked by Ontario's Ministry of Transportation and Communications to conduct a study on "Implementing an 'Audience Targets' Approach to Canadian Content Regulation on Broadcast Television". The overall purpose of the project was to determine how the audience targets approach could be effectively implemented. As stated in MTC's request for proposal:

> "The Audience Targets approach involves replacing time quotas, and having broadcasters achieve a certain target percentage of their viewership from the Canadian programs they broadcast. This would directly regulate the "output" of the system in line with the objective of Canadians watching Canadian programs."

As critical aspects of the work, the study would demonstrate how broadcasters could be regulated using this new approach, how they would respond to this form of regulation and how the CRTC would enforce compliance. In Nordicity Group's proposal to MTC, the overall purpose of the study was to provide MTC with:

> an objective assessment of the implementation requirements for an ATR* system that takes account of the practical issues of relevance and importance to private broadcasters and the regulator....Above all, it must demonstrate the relevance and viability of ATR with respect to well established CRTC policy objectives for the commercial broadcasting sector.

*Audience Targets Regulation

In the early phases of the project, discussions with broadcasters, CRTC staff and representatives of the Canadian advertising community produced little, if any, basic support for replacing the content quota with audience target regulation. This is not to say that creating an environment in which more Canadians would choose to watch Canadian programming was not fully endorsed as a concept and as an aspiration for all contributors to the broadcast system. The major difficulty with audience target regulation from broadcasters' perspective is that it is not possible for them to agree to be regulated by a measure over which they would have no control. Neither sound programming judgement nor financial resources can be relied upon to produce an expected or targetted level of audience in the competitive broadcast environment. The prospect of punitive enforcement measures (fines, license renewal, etc.) meant that MTC would have to forego any support from the issue's major constituency - Ontario commercial broadcasters.

While opposition to the proposed new regulatory approach was strong, some broadcasters were willing to work with a modified concept that had at its roots flexibility and incentives aimed at promoting increased audiences to Canadian programming and redressing the inefficient (unproductive) resources devoted to day time programming.

Through Nordicity Group research, as documented in this report, but described in the words of an Ontario broadcaster we have found that "day time 'quota programming' costs a lot of money, has no audience, generates very low ad revenue, gives Canadian programming a bad name and makes lousy business sense". The basic inefficiency of the day time broadcast schedule is that while Canadian programmers are delivering the required level of Canadian content, Canadian viewers are watching American programming on U.S. stations. Thus the Canadian broadcaster has neither the satisfaction of attracting viewers to his programming nor an attractive financial return on resources invested. The industry term of "the underbelly of the system" for day time programming is apt.

Based on the researched analysis of the performance of day time programming,* three options for creating improved broadcaster flexibility and stimulating increased audience to Canadian programming have been developed. <u>The underlying premise for the proposed option is that in return for scheduling freedom in the form of relief from day time quotas, broadcasters would have to increase overall audiences to Canadian programming in prime time.</u>

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*Weekend programming has not been considered in the options because of markedly different viewing and programming patterns when compared to those of weekdays and also those among markets.

Option 1 provides for a day time audience target and a prime time target with no content quotas across the entire day. Option 2 deals only with day time where the content quota is removed and an audience target is created. Prime time remains as is. Option 3 maintains content quotas for prime time, removes quotas for day time (i.e., day time has neither content quotas nor an audience target) and sets an audience target for prime time if the broadcaster chooses to take advantage of the "audience" or "performance" incentives.The prime time target has associated with it an incentive that creates a reward in the form of a reduced quota or quota credit if the target is met. In each case, the audience target is based on the historical level of Canadian viewing to Canadian programming.

This report continues the analysis of the viability of applying this concept by assessing the required enhancements to existing performance measurement systems in place, necessary to support any revision to the current regulatory approach. On the issue of measurement specifically, broadcasters will be looking for considerably enhanced frequency and sample size in order to more accurately assess a program's audience performance. The incremental costs of improved measurement are expected to be accommodated through increased revenues generated by the proposal.

Enforcement or compliance under a system which adds a performance component (and decreases quotas) to the current regulatory environment, ought to become more supervisory in nature. Instead of non-compliance requiring a regulating penalty, a broadcaster will not qualify for the incentives of quota relief if he/she consistently does not achieve the agreed level of performance. With the new approach described in this report, it is not envisaged that a strict regulatory approach would be taken to performance output, but rather that a system of incentives be created to enable and reward broadcaster achievement of performance.

In Nordicity Group's view, the proposed approach has the potential to benefit all of the stakeholders in the system. Broadcasters will benefit through increased scheduling felxibility and financial incentives. Advertisers will benefit through a more efficient schedule and fewer low audience programs. The regulator will benefit by having a positive means to stimulate private broadcasters to achieve public policy objectives. Finally, the viewers will benefit through the availability of more popular, higher quality Canadian programs.

1.0 The Need for Change

Advances in communications technology threaten to widen the gap between the country's communications objectives and actual performance of the system. As part of its ongoing attempt to improve performance, the CRTC has therefore introduced changes to the regulation of Canadian content on television, and it has invited comment from interested parties on possible additional changes.

In this context, MTC has submitted two documents to the Commission. Both of them argue the need for performance (as opposed to quota) based regulation. Such regulation, in its purest form, would reward broadcasters for generating audiences to Canadian programs, but would not require them to satisfy content quotas, specific programming objectives, or schedule requirements.

MTC's proposal is based on a conviction that the existing regulatory system is not working; that something new is needed to address the historical and ongoing challenge of producing and exhibiting competitive Canadian programs in a crowded, U.S. dominated television marketplace; that content quotas are, as now configured, an inadequate response to the

modern communications environment; and that we should begin moving, now, toward a regulatory system that goes straight to the heart of the issue--namely, viewership of Canadian programs exhibited by privately owned television stations.

1.1 The Present System is Not Working

As noted by many commentators, Canadian programs do not capture the majority of viewing in the domestic television marketplace. Exhibit 1.1.1 demonstrates that, except for very particular parts of the broadcast day, (supper hour and late night news), foreign programs capture the lion's share of domestic viewing. Exhibit 1.1.2 underscores this problem by reference to the role of privately owned television stations in Canada (as distinct from the CBC).

It is well understood that this situation originates in the difficulty that Canadian television has is developing and exhibiting larger quantities of competitive entertainment programs, the programs that capture the biggest part of the average Canadian's 23 hours per week of television viewing. Exhibit 1.1.3 illustrates national, English language Canadian viewing by program category.

Despite the aspirations inherent in the 1968 Broadcasting Act, this situation means that the Canadian public is not being served adequately. The programming skew of the system means that, except for domestic news, sports and information programming, public access to a balanced, high quality

EXHIBIT 1.1.1

Average Total Audience to English-language Canadian Programs by Day Part (1982/83 Season)

Time Block	Total Audience (2+)	Estimated Canadian Program Audiences	Estimated Canadian Program Share
	(000)	(000)	(%)
6 - 8 a.m.	720	290	40
8 -10 a.m.	2,640	1,190	45
10 - noon	3,840	1,420	37
noon - 1 p.m.	3,120	845	27
1 - 4 p.m.	2,640	530	20
4 - 6 p.m.	5,520	1,380	25
6 - 7 p.m.	8,640	6,050	70
7 - 8 p.m.	9,120	1,825	20
8 - 9 p.m.	10,080	1,815	18
9 -10 p.m.	10,320	1,755	17
10 -11 p.m.	8,880	2,220	25
11 -midnight	3,600	2,700	75

Source: Computed from CBC Research, "TV and Radio Audience Data Book," November 1983.

Exhibit 1.1.2

Share of Total Audience
for Canadian Programs by Selected Stations

Station		% of Viewership from Canadian Shows	
		1979	1983
CFPL	- London (CBC Affiliate)	52%	59%
CHCH	- Hamilton	29%	29%
CITY	- Toronto	21%	26%
CHFD	- Thunder Bay	25%	33%
Global	- S. Ontario	20%	27%
CJOH	- Ottawa	32%	33%

For commercial broadcasters, excluding CBC affiliates, approximately 30% of viewership is to Canadian shows, which constitute 60% of the overall program schedule.

Source: Based on Nielsen Special Analysis commissioned by MTC (November 1983)

Exhibit 1.1.3

Contribution to Total Canadian Audience
By Canadian Program Type
(Fall 1982)

	News	Current Affairs	Drama	Sports	Variety Music Quiz	Other	Total
	--(Percentage)--						
CBC	11	10	2.7	12	6	3.3	45
CTV	17	8	0.8	7	4	5.2	42
Other Canadian	6	2	0.4	3	1	0.6	13
Total	34	20	3.9	22	11	9.1	100

Source: Computed from data in CBC Research, "TV and Radio Audience Data Book," November 1983.

domestic television service is extremely limited. Despite high content quotas, people are not watching Canadian programming in proportion to the amount exhibited. As will be shown in subsequent sections of this report, the quantitative programming demands on Canadian broadcasters have, in fact, led to the production and exhibition of a great many inferior programs. The ultimate loser in this situation is the consumer. Consumer interests and cultural goals coincide when television content objectives are expressed as "increasing the amount of Canadian programming which consumers will choose to watch". Popular, as distinct from specialized, programming is a legitimate goal, perhaps especially for commercial broadcasters. Specialised programming needs can and will be met increasingly through the CBC, with its objective of exhibiting 80% Canadian content, through other public broadcasters such as TV Ontario, through incentives such as the Broadcast Program Development Fund, and even through new specialty services which serve "narrow cast" audiences.

1.2 The Historical and Ongoing Challenge

Canadian broadcasters confront a very difficult competitive environment. Competing American programs--delivered via Canadian stations, cable television, or satellite--tend to be lavish productions with budgets founded on the enormous U.S. advertising market. While money and production value are not the same thing, there is a critical relationship between them. Only in certain program areas

that are by definition less costly and that are rooted in easily identified public interests in Canada are our broadcasters able to invest resources comparable to American production budgets.

Perhaps as important as the inequality of financial resources, Canadian broadcasters must deal with the awesome power of American promotion. Even a Canadian who has never seen the A-Team would be able to recognise Mr. T: his intimidating features are everywhere--the magazines we read, advertisements for motion pictures, and so on. Establishing a competitive star system in order to promote our own entertainment programming has proven to be, even for the not inconsiderable talents of the CBC, a daunting proposition.

The existing, quota-based regulatory system does not address this obstacle to the development and exhibition of the kind of programs that would permit balance and diversity in Canadian television. In fact, quotas exacerbate the situation by making broadcasters spend their resources too thinly across too many hours of programming. Yet this challenge must be addressed if official policies such as those intended to stimulate the production of Canadian television drama are to have any hope of success.

An equally significant challenge is becoming increasingly evident as the new delivery systems establish themselves in the television marketplace. This challenge is being addressed through the development of broadcaster strategies to cope with fragmentation caused by entry into the local markets of an expanding array of national and international program services (both entertainment, as with premium pay, and specialized, as with music or sports). To date, such strategies have tended to rely on strong community interest in local news and public affairs. Many television stations in the U.S. and a few in Canada have aggressively expanded and improved local information programming, thus making up in so-called "fringe" viewing periods for attenuation of prime time viewership.

Such developments are clearly good for the Canadian consumer, in that they lead to provision of an improved and more diverse television service. However, the rate and extent of the development by stations of locally based information programming must be optimised, not limited, by the regulatory system if Canadian broadcasting is to develop an adequate response to the transformation of the global communications marketplace.

Moreover, the appropriate strategic response for Canadian broadcasting may well be to expand from proven programming concepts that respond to easily identified public interests into other concepts which gradually build on a Canadian appetite for our own stars, our own places and themes in competitive entertainment programming. It can be done, as the Australian experience with indigenous drama production has shown (In the 1981-82 and 1982-83 Austrialian television seasons, according to Professor W. Hull of Brock University, "American programs are being used as filler while top Australian programs play a larger role in prime time, on both commercial and public systems....eight of the top 10 programs in the major capital cities were of Australian origin.") Working toward comparable performance in Canada could be an important component of our broadcasters' response to the emerging multi-service television environment of the late '80s and 1990s. In any case, broadcasters must be encouraged and rewarded for developing popular Canadian programming.

1.3 Content Quotas, An Inadequate Response

Content quotas have played an important role in the development of domestic television production. They are responsible for many programming initiatives that privately owned television stations might not have taken in their absence. They necessitated at least a minimal production capability at virtually all Canadian television stations. And they helped to expand the domestic market for the independent productions of Canadian entrepreneurs.

Recent regulatory initiatives promise to extend this role in imaginative ways. The points system, which will impose content criteria comparable to those employed for the capital cost allowance for Canadian films, will more directly link content requirements with the development of the domestic creative and performing community. And the 150% content credit recently promulgated in respect of prime time drama productions specifically encourages broadcasters to take advantage of programs that have been implemented by both Federal and Provincial Governments in order to stimulate the development of domestic entertainment programs.

Overall, however, historical reliance solely on content regulation has given us a legacy of inconsistent program quality, inefficient deployment of commercial resources, a truncated independent production sector, adversarial relations between the cultural community and broadcasters, a pervasive cynicism about the goals and competence of the regulator, a less than positive viewer attitude to Canadian programming and poor positioning in respect of fast moving developments in the international world of communications.

1.4 The Principles of Ontario's Proposal

The Ontario Government has publicly stated its commitment to Canadian content in the communications sector; MTC has noted that the country's key challenge is to "counter the threat to...cultural sovereignty posed by the potential

flood of foreign programming" (in the Province's submission to the Federal Clyne Committee). At the heart of MTC's proposal for a performance based regulatory system intended to address this challenge is the conviction that "public policy objectives can best be realized if regulations are set in place to ensure that private decision-making based on rational economic self-interest leads to actions compatible with public policy objectives. What is called for under this approach is the public use of private interest".

The first principle of the Ontario proposal, then, is that regulation can and should be used to achieve national communications objectives. The second principle is that such regulation must mobilise the self-interest of the privately owned component of Canadian broadcasting. And the third principle is that such mobilisation can best be achieved through the development of appropriate incentives.

These principles are consistent with the Province's belief that any change to the current system must enhance, not diminish, the performance of commercial broadcasters relative to the cultural goals set out in the 1968 Broadcasting Act. In other words, the increased flexibility inherent in performance based regulation does not imply a lessening of commitment to the performance of Canadian programs on

Canadian television. The domestic production industry has the ability to produce popular and diverse programming. To achieve this requires flexibility and incentives for good performance.

MTC believes that, in the long term, regulation of commercial broadcasting should be entirely performance based--ie, tied to viewing targets that are to be achieved in whatever ways thought most appropriate by individual stations. Since the overriding goal of regulation is viewing of Canadian programs, regulation should address this goal directly. More particularily, MTC would propose that a percentage of a station's total audience be required to be achieved by its Canadian programming.

In the short term, however, MTC appreciates the need for measures designed to move the system toward performance based regulation but in a manner that complements the complex checks and balances that are currently in place. Historical and recent regulatory initiatives have, of course, been undertaken with a view to optimising the contribution of diverse parts of the broadcasting system. It is MTC's view that public and private segments of the system be further differentiated so as to enhance the different contributions each can make to the issue of balancing the system.

This report therefore assesses the overall potential of performance based regulation relative to Canadian communications objectives, with particular attention paid to opportunities that could be realised in the short term and without doing violence to existing policies and programs that are designed to optimise performance. In this assessment, Nordicity Group has been especially concerned to identify financial resources that could be tapped under a new regulatory framework, with a view to their exploitation via incentives to individual commercial broadcasters. Our most important assumption has been the need for congruence of regulation and the entrepreneurial strengths of the private broadcasters.

2.0 Incentives Are The Key

"You can lead a horse to water, but you can't make him drink." This old adage captures perfectly the recurring problems of a regulatory system that relies on penalties to ensure conformance with quota requirements. If, as the CRTC seems to want, commercial broadcasters are to be expected to invest the resources and imagination needed to make Canadian entertainment programs competitive in one of the most difficult broadcasting marketplaces in the world, they must be spurred by incentives rather than strictures.

At the simplest level, for example, historical experience shows that net increases in broadcaster revenues lead to increases in expenditure on Canadian production. Indeed, a consistent proportion of advertising revenues has been invested by privately owned stations in Canadian programming (see Exhibit 2.0.1).

In the short term, possible incentives relate to relief from costly quota requirements. Such relief would recover resources now deployed in the production of programs that are inadequate to the challenge of aggressive competition in the viewing marketplace. More important still, such relief would enable Canadian broadcasters to tap new sources of advertising revenue. And new productions, funded with such recovered resources, are more likely to be successful in supplementary television markets, domestic and foreign.

Exhibit 2.0.1

Advertising Revenues and Production/Programming Expenditures in Commercial Broadcasting

	1977	1978	1979	1982
		($ millions)		
Net Advertising Revenues	375.6	441.8	526.8	777.3
Programming costs	138.1	176.5	209.1	320.1
Canadian programming costs	105.9	130.8	147.2	214.5 (est)
Canadian programming costs as a percentage of revenues	28	30	28	28

Source: Statistics Canada, "Radio and Television Broadcasting" various years; MacLean Hunter Research Bureau, "Report on Advertising Revenue in Canada", 1983

2.1 Production Costs

Quotas dictate that television stations and networks invest limited resources in many programs for which the viewing aspirations are extremely modest. Many day time programs fall into this category. A typical broadcaster in a medium sized Ontario market would make out of pocket investments for such programs of a few hundred dollars per half hour; these programs might include exercise shows, network talk shows, and the like. Nordicity Group has estimated the annual production costs of day time programs on CFTO that generate less than a 15 percent market share in the Toronto/Hamilton extended market area (approximately 1.6 million households) at about $740,000 to $880,000 across the day time schedule (four and one half hours of programming per day). While this is a small amount of money in the context of a single station's production investment, it is significant in a national context. Nordicity Group estimates a total investment by privately owned English language stations in Canada of approximately $20 million to $25 million*, roughly 10 percent of total Canadian programming expenditures.

*This is a rough order estimate based on total Canadian programming expenditures of approximately $220 million (Statistics Canada, 1982) and assuming that news and current affairs programming accounts for half of these total expenditures, sports and dramatic programming 20 to 25 percent, and all other Canadian programming the remaining 20 to 25 percent.

Moreover, such programs are often inappropriate for outside investment--i.e., as either co-production or independent production properties suitable for private, outside investment. The broadcasters bear the cost alone.

These problems are not, of course, pertinent to all Canadian programs that generate limited viewership. Privately owned television stations would continue, even in a completely de-regulated environment, to produce special or restricted interest programs that respond to local or community requirements. Examples would be a farm show or talent competitions. Many broadcasters believe that such programming is a legitimate public responsibility, irrespective of revenue considerations. Broadcasters, after all, are part of the communities they serve; it is good business practice to reflect community interests in their television operations.

2.2 Advertising Revenue

One of the most significant opportunity costs accruing to quota programming is the loss of potential advertising revenue that occurs in Canadian content "ghettos". Day time television is a particular example of this, because potential audiences are small. Exhibits 2.2.1, 2.2.2, 2.2.3 and 2.2.4 illustrate the loss of potentially saleable Canadian television audiences to American stations that are originating signals not subject to domestic program

substitution regulations in three selected Ontario markets and nationally. In some parts of the schedule, these losses are significant. Re-patriation of numbers of viewers equivalent to shares achieved by Canadian stations in the competitive prime time viewing period would add perhaps two million* Canadian viewers to commercial stations on a national basis.

It is difficult to translate audiences lost to American stations into reliable estimates of the loss of potential advertising revenues. Audience losses in individual markets vary, as do historical rates for the sale of commercial time in those markets. Changes in audience size are not directly proportional to commercial rates, which are also established by reference to audience demographics in different schedule parts, to demand by advertisers which is in turn tied to economic conditions which vary markedly across the country, and to the size/duration of commercial time purchases. Nevertheless, a range of projections can be developed. For example, if a day-time schedule, free of content regulation, is imagined, it is fair to assume that a broadcaster would, via program substitution and competitive programming, achieve shares comparable to those achieved in peak viewing periods.

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* Computed by taking 80% of the total prime time loss (2.6 million viewers) in Exhibit 2.2.4

EXHIBIT 2.2.1

Audiences Lost to American Stations Where Cable Substitution is Not Applicable

(Toronto/Hamilton Fall 1983)*

Time Period	U.S. Station Share of Canadian Audience	Estimated U.S. Station Audience (viewers 2+)
	(%)	(000s)
8 - 10 a.m.	36	125
10 - noon	48	155
noon - 1 p.m.	39	165
1 - 4 p.m.	31	135
4 - 6 p.m.	37	295
6 - 7 p.m.	15	205
7 - 8 p.m.	30	600
8 - 9 p.m.	20	400
9 -10 p.m.	25	550
10 -11 p.m.	15	250
11 -12 p.m.	10	120
Total		3,000

* Based on Monday to Friday averages only.

Source: Computed from BBM, "Television Report: Toronto/Hamilton" Fall 1983; A.C. Nielsen, "Television Report: Toronto/Hamilton" October 24 - November 13, 1983.

EXHIBIT 2.2.2

Audiences Lost to American Stations Where Cable Substitution is Not Applicable (Ottawa/Hull Fall 1983)*

Time Period	U.S. Station Share of Canadian Audience	Estimated U.S. Station Audience (viewers 2+)
	(%)	(000s)
8 -10 a.m.	7	5
10 - noon	30	23
noon - 1 p.m.	3	5
1 - 4 p.m.	8	13
4 - 6 p.m.	13	34
6 - 7 p.m.	5	16
7 - 8 p.m.	13	59
8 - 9 p.m.	14	63
9 -10 p.m.	12	54
10 -11 p.m.	7	32
11 -12 p.m.	10	25
Total		329

* Based on Monday to Friday averages only

Source: Computed from BBM, "Television Report: Ottawa/Hull" Fall 1983.

EXHIBIT 2.2.3

Audiences lost to American Stations Where Cable Substitution is Not Applicable (Kitchener/Waterloo Fall 1983)*

Time Period	U.S. Station Share of Canadian Audience (%)	Estimated U.S. Station Audience (viewers 2+) (000s)
8 -10 a.m.	29	14
10 - noon	39	19
noon - 1 p.m.	17	15
1 - 4 p.m.	15	13
4 - 6 p.m.	20	28
6 - 7 p.m.	11	23
7 - 8 p.m.	18	43
8 - 9 p.m.	10	24
9 -10 p.m.	9	25
10 -11 p.m.	5	12
11 -12 p.m.	20	18
Total		234

* Based on Monday to Friday averages only.

Source: Computed from BBM, "Television Report: Kitchener/Waterloo" Fall 1983

Exhibit 2.2.4

Audiences Lost to American Stations Where Cable Substitution is Not Applicable

(National Basis, Fall 1983)

Time Period	Total Audience (viewers 2+)	U.S. Station Share of Canadian Audience	Estimated U.S. Station Audience (viewers 2+)
	(000s)	(%)	(000s)
8-10 am	2,640	17	450
10-noon	3,840	20	745
noon-4:30 p.m.	2,880	23	670
4:30-6:00 p.m.	5,520	18	1,008
6:00-7:00 p.m.	8,640	8	690
7-11 p.m.	9,600	20	1,920
Total	33,120		5,483

Source: BBM, "U.S. Television Viewing in Canada" Fall 1983; CBC Research, "TV-Radio Audience Data Book" November 1983

Moreover, the possibility of repatriating a significant proportion of Canadian viewers watching US stations in the day time would likely lead to rationalisation of commercial rates for this period. Currently, significant proportional variations in audience size are not reflected in the commercial rates of many stations, possibly because of the limited confidence of both broadcasters and advertisers in the reliability of viewing data and audience demographics for this period. Exhibits 2.2.5, 2.2.6 and 2.2.7 project potential gains in advertising revenue for a single station, a selected market and nationally. Assuming complete day-time scheduling autonomy, rationalised rate structure, and competitive shares comparable to those achieved in peak viewing periods. Nordicity Group estimates, conservatively, that all privately-owned English broadcasters could generate over $9.0 million in additional advertising revenues from 9 a.m. to noon.

Such revenue increases would, of course, not be net, in that broadcasters would have to invest substantial resources in replacement programming. Assuming such programming was acquired from foreign, chiefly American sources, the national acquisition bill might come to as much as $3.0 million to $5.0 million* (Program costs range from a few hundred

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*This estimate assumes that replacement program costs are roughly one third of the cost of Canadian programs that are removed.

EXHIBIT 2.2.5

Projected Gains in Advertising Revenue Assuming Daytime Scheduling Autonomy (CFTO in Toronto/Hamilton)

Part I

Time Period	Average CFTO Audiences for Canadian	Average U.S. Station Audience	Re-patriated Audience from U.S. Stations (1)	CFTO's Share of Re-patriated Audience (2)	CFTO's New Average Audience (3)
		(000s viewers 2+)			
9 - noon	30	140	105	21	48

Assumptions:

1. 75% of viewers watching U.S. stations are re-patriated.

2. CFTO takes about 20% of the re-patriated viewers--20% is roughly its overall market share in the Toronto/Hamilton market.

3. CFTO's new average audience is made-up of 90% of 30,000 viewers previously watching its Canadian programs and 20% of the 105,000 re-patriated viewers.

Part II

Presently, CFTO charges $130/30 second spot from 6 a.m. to noon. If we assume that CFTO can increase its spot rate in this time period because it is now delivering an audience that is 60% larger, then we can estimate potential gains in advertising rates as follows:

- with 72 spots available (24 30 sec. spots per hour) assume 75% sell-out, therefore 54 spots sold;

- with 54 spots sold CFTO is presently generating revenues of $1.8 million annually (based on 5 weekdays, 52 weeks) at $130 per spot;

Exhibit 2.2.5 (cont'd)

- assume three new rate rates:
  $150/spot
  $170/spot
  $190/spot
  Note that these rates are below the current CFTO rate of $250/spot, which it charges in the noon - 12:30 p.m. time period, which captures an average of 55,000 viewers

- at $150/spot CFTO would earn additional advertising revenues of $280,000 annually; at $170/spot additional revenues would amount to about $560,000; and at $190/spot additional revenues could reach $840,000 annually.

Exhibit 2.2.6

Projected Gain in Advertising Revenue Assuming Day-time Scheduling Autonomy (Total Toronto/Hamilton)

	Average rate per 30 second spot (9 a.m./ noon)	No. of spots sold from 9 a.m./noon (all stations)	Weekly gross Revenue (4) ($000s)	Annual Gross Revenue (based on 29 weeks)(5) ($000s)	Less Discounts (25% of gross revenues) ($000s) (6)	Net Annual Revenues ($000s)
Before Repatriation	$115 (1)	216 (3)	124.2	3,601.8	900.5	2,701.3
After repatriation	$140 (2)	216	151.2	4,384.8	1,096.2	3,288.6
					Potential Annual Gain	587.3

Notes:

1. This figure is an average of the rates charged by CITY-TV, CFTO, CHCH and Global between 9 a.m. and noon.

2. Assume that, on average, broadcasters will be able to increase their 30 second spot rate in this period by $25 (roughly 20% over the present rate of $115).

3. This is 75% of the total number of the spots available on CITY, CFTO, CHCH and Global between 9 a.m. and noon (assuming 24 30 second spots per hour).

4. Weekly gross revenues are based on five weekdays only.

5. Based on analysis of Nielsen NTI reports, viewing levels are generally highest in the 29 week period beginning in September and ending in April. In the summer months (May to August) viewing levels may drop by as much as 20%. It is assumed therefore, that because of the drop in viewing levels, an increase in the spot rate could not be justified for the summer season.

6. Discounts include commissions, continuity and various bulk buy discounts.

Exhibit 2.2.7

Projected Gain in Advertising Revenue Assuming Day-time Scheduling Autonomy (National)

	Average Rate per 30 sec. spot (9 a.m. to noon)	No. of spots sold from 9 a.m. to noon (all privately owned stations in English Canada	Weekly Gross Revenue (4) ($000s)	Annual Gross Revenue (based on 29 weeks) (5) ($000s)	Less Discounts (25% of gross revenues) (6) ($000s)	Net Annual Revenues ($000s)
Before repatriation	$ 90 (1)	4,212 (3)	1,895.4	54,966.6	13,741.7	41,224.9
After repatriation	$110 (2)	4,212	2,316.6	67,181.4	16,795.4	50,386.0
					Potential Annual Gain	9,161.1

Notes:

1. This figure is an average of the rates charged by a national sample of ten privately-owned English stations including CTV and CBC affiliates and independent stations.

2. Assuming a 20% increase in the spot rate.

3. This represents 75% of the total number of the spots available on 78 privately-owned English stations between 9 a.m. and noon (assuming 24 30 second spots per hour).

4. Weekly gross revenues are based on five weekdays only.

5. Based on an analysis of Nielsen NTI reports, viewing levels are generally highest in the 29 week period beginning September and ending in April. In the summer months (May to August) viewing levels may drop by as much as 20%. It is assumed therefore, that because of the drop in viewing levels, an increase in the spot rate could not be justified for the summer season.

6. Discounts include commissions, continuity and various bulk buy discounts

dollars to perhaps $2000 per hour). In a flexible day time environment, in other words, broadcasters would enjoy net revenue increases of between $4.0 and $6.0 million, not including savings accruing because some Canadian programs would no longer produced.

As noted above, broadcasters are unlikely to replace all day time Canadian content with acquired foreign items, no matter how promising the revenue picture. Assuming that the majority of low impact programs that do not qualify as "local mandate shows" were eliminated and replaced by competitive acquired foreign shows, then, re-patriated Canadian viewers might permit a net increment of revenue of between $2.0 million and $4.0 million.*

2.3 Program Sales

The domestic and international program marketplace is exceedingly competitive. Programs with limited production values, such as many Canadian quota programs, simply do not draw audience. The need to produce many programs with too few resources seriously limits the extent to which privately owned television stations can risk the kind of

*This estimate assumes that one half of local Canadian programming between 9 am and noon is retained by the broadcaster.

enhanced production values necessary for development of competitive re-sale shows. This situation contributes to the weak historical performance of commercial stations in export markets.

The problem does not originate in the trading aspirations of the broadcasters. In a 1981 report on the economics of program production, Nordicity Group noted that commercial broadcasters envisaged a possible re-sale market of $8.5 million in that year. And, according to the Canadian Film Development Corporation, in the months since the broadcast development fund has been in place, private broadcasters have been involved in entertainment productions at the level of at least $4.0 million--i.e., projects with production values amounting to as much as $12.0 million, based on the one-third funding formula used for the fund.

But, however keen, as long as they are required to spread their production investment over such a large number of programs, commercial broadcasters must severely restrict the degree to which they integrate program production and program sales strategies. Any incentives-based regulatory framework must provide incentives to broadcasters to encourage a more aggressive program sales orientation in order to improve the system's overall productivity and to bring about the production of the highest quality programming for domestic consumption.

3.0 Audience Targets For Canadian Programs - Three Performance-based Options

The overall purpose of relieving broadcasters from the constraints imposed by some aspects of current quota regulation is to create incentives for performance that is equal to or better, in terms of viewing of Canadian programs, than what is achieved under the existing regulatory scheme. As discussed in Section 1, Exhibits 1.1.1 and 1.1.3 illustrate the historical performance of Canadian programming by reference to day parts and programming categories, repsectively, on a national basis.

Audience targets could be established in a performance-based framework for: 1) cumulative audiences; 2) audiences to different parts of the schedule; and 3) audiences to different categories of programming. Depending on the manner of implementation and the specific audience objectives to be achieved, these types of targets could be employed individually or in combinations as the following options show. In each case, the audience target is based on the historical level of Canadian viewing to Canadian programming. Also in each option, the day time part of the schedule has been relieved of content quotas in order to promote flexibility and additional financial resources for broadcasters.

Option 1 provides for a day time audience target and a prime time target with no content quotas across the entire day. Option 2 deals only with day time where the content quota is removed and an audience target is created. Prime time remains as is. Option 3 maintains content quotas for prime time, removes quotas for day time and sets an audience target for prime time only (i.e., day time has neither content quotas nor an audience target).

3.1 Option One - Wholesale Change

The first option would involve determination of targets for all stations such that cumulative viewing of Canadian programs would match or exceed historical achievements. On the basis of the most recent available viewing data, as noted earlier in this report, the target for English language programming on a national basis would be approximately 3.1 million viewers from sign-on to 6 p.m. (17 per cent of viewing) and 4.2 million viewers in prime time from 7 to 11 p.m. (roughly 11 per cent of viewing). These estimates apply to the peak viewing season and may have to be adjusted for summer viewing months (Note: these figures do not include audiences for supper-hour news and late evening news--the strongest components of a Canadian station's Canadian content programs).

*Estimates do not include the CBC

In this case broadcasters would be relieved of content quotas across the schedule and would be free to achieve the audience targets for day time and prime time in any manner they chose.

Based on the discussion and rationale of Section 2, assuming that: stations re-patriated as much as 75 percent of audiences now lost to US stations; commercial rates were rationalised across the full broadcast day; and that the smaller number of Canadian programs exhibited under this approach generated viewership comparable to cumulative levels in the existing system, between $32 million and $64 million* in incremental revenue would be available primarily for production of those programs, but also for increased measurement costs and for future investment. Presumably, new or enhanced Canadian programs would, in many instances, be more saleable in export markets and would therefore generate another increment in revenue.

In the context of television stations' overall advertising revenues (about $671 million in 1982)**, these projections represent overall advertising revenue increases of approximately five to 10 percent.

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*These incremental advertising revenues would be generated primarily in day time viewing periods (from 9 am to 6 pm) when the opportunity for re-patriation is greatest and, therefore, an increase in the spot rates could be justified. Projections are rough order and are based on spot rate increases of 10 and 20 per cent.

**Source: Statistics Canada Cat. No. 56-204

While a wholesale shift to complete performance based regulation, in the short term, could be attractive in some limited respects, it is far too radical a change for several reasons. First, basing regulation primarily on performance in the viewing marketplace is not consistent with how the language and intent of the 1968 Broadcasting Act has been interpreted since it was enacted. The Act refers to a system which uses "predominantly Canadian resources", but does not refer to actual performance. While the Act does not specifically call for time quotas, any other interpretation would call for a significant reorientation of the broadcaster and regulator alike.

Another consideration in this context is the serious effort that both the regulator and the Federal Department of Communications are now making to introduce integrated measures to stimulate the supply of high quality, diverse Canadian programs appropriate to the expanding supplementary and export market for film and video productions. A sudden change in the orientation of one of the most important parts of the system on which such productions are based (i.e., the commercial broadcasting sector) could seriously jeopardise major initiatives already under way.

A third factor that argues against this option, at present, is the concern of the commercial broadcasters themselves that stability in their environment is maintained. In the last few years, that environment has changed profoundly: pay

television; the licensing of specialised, advertising supported services; the spectre of American direct broadcast satellite services; the explosive growth of VCR technology with its attendant risks of widespread time shifting and alternative use of a medium that was once restricted to off air reception of the broadcasters' signals; and other developments are already forcing radical internal change in the industry.

A fourth factor and perhaps of most intense concern to broadcasters, is their total unwillingness to agree to be judged by a measure that is beyond their control. No broadcaster can commit, with any degree of certainty, to the achievement of a specific audience level. In addition, with a quota system, broadcasters can plan financially, with some accuracy, what the cost of compliance will be. The costs of meeting an audience target are much more uncertain.

A fifth factor, again from the broadcasters' point of view, is the effect of eleminating quotas on the cost of American programming. If the price of available U.S. network programs is bid up, a large part of the financial "savings" will not materialize.

3.2 Option Two - Performance-based Incentive for Non-Prime Time Viewing

This option involves implementation of performance-based regulation in schedule periods that are manifestly under-utilised in the current system--namely, off prime hours when Canadian stations forfeit substantial audiences to American stations with no recourse to program substitution in order to recover potential advertising revenues. On the other hand, in peak viewing periods, notwithstanding the strictures of Canadian content quotas, broadcasters compete aggressively for audiences and are able to retain substantial shares of potential advertising revenue. In this example, prime time content quotas are retained and day time quotas dropped. The audience target would apply to day time only.

Exhibits 3.2.1, 3.2.2, and 3.2.3 project the audience performance of sample stations in selected markets. Again, projected performance assumes an acceptable distribution of incremental advertising revenues among production, measurement and shareholders. The advantage of this option is that it does not require program specific targets, since existing quota-based regulation continues to apply to peak viewing periods, including such program-specific initiatives as the 150 percent content incentive for Canadian drama. Moreover, it does not involve wholesale change in that the prime periods of television viewing, when most people are watching their sets, continues to be regulated by reference

Exhibit 3.2.1

CFTO Performance in the Toronto/Hamilton Market Assuming Deregulation of Day-time Schedule

Time Period	Canadian Program Replaced	Average Audience	Average US Station Audience (in specified Time Slot)	Repatriated Audience from US Station (1)	CFTO's Share of Repatriated Audience (2)	CFTO's New Average Audience (3)	Increase in CFTO's Average Audience	
			-- (viewers 2+, 000s) --					%
9 - 9:30 a.m.	Toronto Today	27	120	90	18	42	15	55
9:30 - 10 a.m.	Romper Room	31	120	90	18	45	14	47
10 - 10:30 a.m.	What's Cooking	16	106	79	16	30	14	88
10:30 - 11 a.m.	Just Like Mom	10	176	132	27	35	25	265
11 - 11:30 a.m.	Definition	13	170	128	26	38	25	192
11:30 - noon	Guess what	13	167	125	25	37	24	190
12 - 12:30 p.m.	Kid's Corner	34	168	126	25	55	21	62
1 - 2 p.m.	Don Harron	39	130	98	20	55	16	41

Assumptions:

1. Assume 75% of viewers watching U.S. stations are repatriated.

2. Assume CFTO captures 20% of viewers repatriated from U.S. stations.

3. CFTO's new average audience is computed by taking 90% of the audience it is currently drawing with its Canadian programs (assume that 10% will either turn their sets off or tune-in another channel) and 20% of the total audience repatriated from U.S. stations--20% is CFTO's overall audience share through out the broadcast day, therefore it is assumed that it will likely capture an equivalent share with its Americanized day time schedule.

Source: BBM, "Television Report: Toronto/Hamilton" Fall 1983.

Note: Figures have been rounded.

Exhibit 3.2.2

CJOH Performance in the Ottawa/Hull Market Assuming Deregulation of Day-time Schedule

Time Period	Canadian Program Replaced	Average Audience	Average US Station Audience (in specified Time Slot)	Repatriated Audience from US Station (1)	CJOH's Share of Repatriated Audience (2)	CJOH's New Average Audience (3)	Increase in CJOH's Average Audience	
			-- (viewers 2+, 000s) --					%
9:30 - 10 a.m.	Guess What	5	26	20	5	9	4	80
10:30 - 11 a.m.	What's Cooking	8	25	19	5	12	5	50
11 - 11:30 a.m.	Definition	9	26	20	5	13	4	45
11:30 - noon	Romper Room	7	12	9	2	8	1	14
3 - 4:00 p.m.	Don Harron	16	20	15	4	18	2	13

Assumptions:

1. Assume 75% of viewers watching U.S. stations are repatriated.

2. Assume CJOH captures 25% of viewers repatriated from U.S. stations.

3. CJOH's new average audience is computed by taking 90% of the audience it is currently drawing with its Canadian programs (assume that 10% will either turn their sets off or tune-in another channel) and 25% of the total audience repatriated from U.S. stations--25% is CJOH's overall audience share through out the broadcast day, therefore it is assumed that it will likely capture an equivalent share with its Americanized day time schedule.

Source: BBM, "Television Report: Ottawa/Hull" Fall 1983

Note: Figures have been rounded.

Exhibit 3.2.3

CKCO Performance in the Kitchener/Waterloo Market Assuming Deregulation of Day-time Schedule

Time Period	Canadian Program Replaced	Average Audience	Average US Station Audience (in specified Time Slot)	Repatriated Audience from US Station (1)	CKCO's Share of Repatriated Audience (2)	CKCO'S New Average Audience (3)	Increase in CKCO's Average Audience	
			-- (viewers 2+, 000s) --					%
9 - 9:30 a.m.	Romper Room	8	9	7	2	9	1	13
10 - 10:30 a.m.	What's Cooking	4	13	10	3	7	3	75
10:30 - 11 a.m.	Be My Guest	5	18	14	4	9	4	80
11 - 11:30 p.m.	Guess What	3	19	14	4	7	4	130
11:30 - noon	Definition	5	10	7	2	7	2	40

Assumptions:

1. Assume 75% of viewers watching U.S. stations are repatriated.

2. Assume CKCO captures 25% of viewers repatriated from U.S. stations.

3. CKCO's new average audience is computed by taking 90% of the audience it is currently drawing with its Canadian programs (assume that 10% will either turn their sets off or tune-in another channel) and 25% of the total audience repatriated from U.S. stations--25% is CKCO's overall audience share through out the broadcast day, therefore it is assumed that it will likely capture an equivalent share with its Americanized day time schedule.

Source: BBM, "Television Report: Kitchener/Waterloo" Fall 1983

Note: Figures have been rounded.

to quotas. The risk to broadcasters is thus containable, since the most important part of their business is unaffected.

There are serious problems with this option, however. It would require a substantial investment in measurement, for example, since audience targets would have to be met in that part of the schedule that is not now measured either reliably or comprehensively. Presumably, the bulk of investment in programs intended to generate target audiences for Canadian programs would be devoted to local productions. At present, measurement is decidedly skewed toward research on network programs, and smaller markets are treated inadequately except for special studies by the major survey companies.

These costs, together with other problems such as the possible lack of sufficient financial or other incentives for either the regulator or many of the stations themselves to make the effort necessary to re-define their way of doing business, are not balanced by the opportunity to effect a dramatic, overall improvement in the performance of Canadian broadcasting. With few exceptions, Nordicity Group in its discussions with broadcasters, the advertising community and government/regulatory officials, has not encountered widespread enthusiasm for the introduction of regulatory change aimed only at an historically unimportant part of the schedule.

3.3 Option Three - Performance-based Incentive and Prime Time Incentives

The third option proposed for consideration attempts to marry the potential gains accruing from re-patriation of Canadian audiences in the day time, with incentives already established under the quota system with respect to peak viewing periods. In essence, this option assumes that no Canadian content strictures apply to day time programming, that cumulative losses of viewership for Canadian programs in this part of the schedule (the audience target) must be made up in peak time programming, and that such recovery could be tied to programs qualifying for the quota incentives of the day--namely, the 150 percent Canadian content credit for drama. Indeed, a further incentive is proposed, in that achievement of an audience target would mean, say, a 200 percent content credit, instead of the already announced 150 percent. Achievements in excess of the established target could produce graduated additional content credits. (The 200 per cent level of credit was chosen because of the anticipated positive broadcaster reaction to a 2:1 hour ratio incentive and because the cost of producing drama programming is considerably higher than other formats.) While this is just one incentive that could be applied, it represents both the one most likely to be attractive to the broadcaster and the one most likely to help achieve federal and regulatory policy objectives. The same incentive could be applied to other program categories (e.g., variety, children's).

There are several reasons why this option is particularly appropriate for implementation in the short term. First, it would necessitate a minimal adjustment with respect to measurement. Once broadcasters have satisfied the Commission as to the cumulative audiences to Canadian programs that will be forfeited when the day-time part of the schedule is "de-regulated," measurement attention is concentrated on designated peak time programming, a period that is already extensively measured.

Second, it presents a source of potential substantial incremental revenue which is a pre-requisite for broadcasters to risk investment in the highly competitive and costly entertainment category of programming. Third, it presents a sound rationale for elevation of the CRTC's current content incentive (i.e., 150 percent) to a level that more closely recognizes the actual differential in the costing of alternative prime time Canadian programming--i.e., drama costs about four times as much as virtually any other kind of production. Fourth, further quantitative reduction in Canadian content would only occur <u>subsequent</u> to measureable improvements in actual performance in the programming marketplace. (The current 150 per cent content credit is granted after actual exhibition proof via program logs.)

Fifth, it will directly complement the implicit desire of federal and provincial goverments and the Commission to stimulate development of the independent production industry. The substantial incentive to invest in drama will encourage the use of the independents because of their access to supplementary resources (e.g., investment capital and the dedicated funds of the broadcast development fund as well as production skills).

3.4 Option Three - How It Would Work

If this option were to be implemented, the following scenario would be possible. (See Appendix A which details the following steps and provides a financial summary.) First, a participating station would eliminate poorly performing day time Canadian programs that serve neither the interests of local viewers nor station share aspirations. For CTV network affiliates, for example, this might mean stripping out perhaps 22.5 hours* of mostly network programs in a week's schedule, programs with an average weekly cumulative audience of, say, 910,000** viewers in the Toronto/Hamilton market and perhaps 5.6 million viewers on a national basis(taking account of viewership variation over a full year). This

*This estimate assumes that CFTO would replace all day time programs with the exception of Canada AM.

**Sources: BBM, "Television Report: Toronto/Hamilton" Fall and Summer, 1983; and Nielsen, "Network Television Report" Various Weeks, 1983.

audience would constitute the station's audience target for replacement through peak time programs. The estimated savings to the CTV network on production/acquisition costs accruing to the elimination of these quota programs would be approximately one million dollars annually.* CFTO, the CTV affiliate in Toronto, might in this way save approximately $200,000. to $240,000, (i.e., its present contribution to network programming costs) and an additional $540,000. to $640,000. on locally produced programs.

Second, the station would acquire replacement, foreign programs at an annual cost of, say, $220,000. to $265,000.** or roughly 30 percent of the cost of the Canadian programming replaced. The station would also rationalise commercial rates, determined by the projected performance of the replacement programming, and anticipate incremental advertising revenues based on the new rates.

Third, the station would calculate the net impact of these programming and commercial policy changes on resources available for investment in peak time replacement (or enhanced) production. The calculation might also include the re-sale potential of planned replacement programs.

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*Calculated over a 26 week production schedule and assuming five episodes per week.

**Based on the assumption that, on average, a commercial broadcaster's foreign programming acquisition costs are roughly 30 percent of total programming costs. See Raymond, Chabot, Martin, Pare and Cie, "Private Television Stations, Selected Fianacial Data 1972-1980". Prepared for the CAB, January 1981.

Fourth, based on these calculations, together with information concerning outside investment sources, such as the broadcast development fund, the station would establish a budget for replacement program production, or purchase in the case of smaller stations, options in the dramatic category. This budget would, in all probability, be for production by a network or consortium of broadcasters. In order to be competitive with peak time entertainment programs originating in the United States, the anticipated budget for this type of program would be in the range of $500,000 to $1,000,000 per hour.

Fifth, the station would examine the schedule with a view to identification of the most suitable slot for the replacement program, with reference, for example, to competing programs, the number of television sets in use, and existing commitments (e.g., a regular sports fixture). The schedule slots chosen would have to be capable of generating additional audiences as large as those lost as a result of stripping out the 22.5 hours of Canadian content from the daytime schedule (referred to above).

These steps would be taken with considerable caution. Projections of audience share are notoriously unreliable, and changes to the proven peak time schedule are risky. A poor performance here can cost a station a great deal of money.

Risks would, of course, be ameliorated somewhat by the fact that the day time schedule can be relied on for a greater proportion of station revenues, and programming costs for this part of the schedule will have declined.

But the main incentive to the broadcaster will be the opportunity to invest new resources in a program that will, depending on its performance, reduce overall Canadian content volume or time requirements in the all important peak viewing period of a station's schedule. Specifically, one hour of drama, according to the CRTC's new regulations, will be counted as 1.5 hours of Canadian content. And, if the basic target referred to above is achieved--i.e., the number of viewers to Canadian programs lost as a result of elimination of poorly performing day time quota programs--an additional credit of one half hour would be earned under this proposal. Since any broadcaster will try very hard to maximise audiences to any program shown in peak viewing periods because of straightforward revenue considerations, he/she would certainly project performance at a level sufficient to garner the extra credits.

Moreover, since audience targets apply to individual stations rather than networks, the stations could be expected to complement network promotion with local initiatives aimed at driving up the audience share for Canadian drama in communities throughout the country (the success some stations have had in promoting local programs such as news and

information shows suggests that this could be a powerful spur to the competitive performance of Canadian programming in the proposed performance based framework). While a detailed analysis of the potential of local station promotion to build audiences for national entertainment programs is beyond the scope of this report, that potential could be very significant. The success of Allarcom Broadcasting in promoting pay television in Edmonton, via CITV, is instructive in this regard. In that city, the penetration of pay television is nearly twice the national average. And, as noted above, such promotion would, really for the first time, begin to redress the extra-ordinary advantage of heavily promoted American entertainment and stars.

4.0 Enforcement

It has been argued that replacement of content regulation with performance-based regulation would pose serious enforcement challenges for the regulator. In fact, enforcement under an audience target system could be at least as efficient and effective as it is now. The major incentive to a broadcaster in a performance based system is to avoid a return to quotas and to retain increased programming flexibility in the day time.

By and large, broadcasters do conform to content regulations. Fines and cancellations of licenses have, in fact, rarely ever been used in respect of a broadcaster's achievement of quota conditions.

While a quota system requires penalties for non-compliance, performance based regulation, in any of the three options considered in this report, is incentive oriented. In reviewing the performance of a broadcaster who does not achieve targets, the CRTC would have to recognize that many factors affect such performance. Inability to take advantage of quota relief incentives, as we have seen, carries real costs for the broadcaster, since it would mean loss of a portion of the improved profitability accruing as a result of advertising gains made under a performance based system. This possibility applies to all options, and is amenable to careful, phased application. For example, in Option Three,

where a broadcaster has not achieved the minimum target for a Canadian prime time dramatic program slot, he would have to forfeit, in addition to the extra 50 percentage points of Canadian content incentive, a greater or lesser amount of freedom to exhibit foreign programs in the daytime schedule. In this example of a performance based system, the "penalty" for inadequate performance is not tied to fines, loss of licence or shortened license duration. Rather, the whole rationale behind the audience targets approach is to provide incentives for a broadcaster to devote more resources to gaining Canadian audiences to Canadian programming. The notion is simply that, in exchange for day time flexibility, a broadcaster commits to improved performance and an audience target (historically derived) is set to help supervise the outcome.

Since audience achievements are dependent on a variety of factors, some of them outside the broadcaster's control, it does not make sense to have a "sudden death" audience target level, above which the broadcaster qualifies for the incentive and below which, he does not. If audience size does not quite achieve the level required for the 50% incentive (i.e., 150% drama credit plus 50% = 200%), it could be reduced, for example, in 10% steps, back to the original 150% drama credit. Correspondingly, for each 10% decline in the use of the incentive, 20% of daytime quota provisions would apply.

The key enforcement issue is the need to avoid dispute concerning actual audience achievements. Measurement also presents challenges to effective, acceptable operation of the proposed new regulatory system in that findings must be acceptable to both the regulator and the industry. A broadcaster who has not quite achieved a given target, for example, could be expected to challenge or re-interpret viewership data in order to avoid forfeiting various incentives that are tied to targets. Such challenge could well carry legal implications--i.e., a finding challenged in the courts. So, prior to implementation of a performance-based regulatory system, iron clad agreement on measurement techniques and procedures must be in place and the degree of regulatory and industry flexibility in relation to targets must be spelled out.

The key to accpetable measurement provisions related to audience targets is to set a target range governed by the level of statistical confidence in the measurement system. Data which are accurate within four percentage points would mean that an audience target of 1,000,000 viewers, could be expressed as a target of "between 960,000 and 1,040,000.

If there is a need to ensure objective assessment of performance over and above the existing mechanisms, efforts should be made to ensure that a "self-regulatory" direction is taken wherever possible. For example, there could be established a small industry tribunal that could adjudicate

after the fact controversy on the validity of findings. Such a tribunal, comprised, for example, of qualified representatives of the Canadian Association of Broadcasters, the chosen survey companies, and possibly, the advertising community, would hear such evidence as the broadcaster in question chose to introduce, as well as Commission research findings where appropriate. Its decisions would be binding.

5.0 Measurement

All of the options discussed in Section 3 present varying degrees of measurement challenges. If broadcasters are to be reviewed on actual performance, individual stations must have reliable data on viewership for all portions of the schedule. Currently, this data is comprehensive and subject to acceptable levels of error in only a few markets and relative to selected schedule portions. This situation argues for caution not only in interpreting past performance, but also in determining meaningful targets. Broadcasters feel strongly that if the measurement system is to be used for any other purpose than currently, vast improvements will be required.

Nielsen and BBM are the two most important measurement companies. Nielsen surveys 44 markets in Canada, 14 in Ontario. These markets are surveyed twice each year, once in October/November and once in February/March. The largest markets--Toronto/Hamilton, Montreal, and Vancouver--are surveyed by Nielsen six times each year, including once in the weaker summer viewing period. Nielsen also surveys medium markets, such as Calgary/Lethbridge, Ottawa, Edmonton/Red Deer, Halifax, and Winnipeg/Brandon, several times each year. The company conducts network surveys 37 times each year, but will introduce 52 week surveys beginning in the fall of 1984.

BBM surveys 50 Canadian markets, 13 in Ontario. The frequency of BBM surveys is similar to Nielsen's with the eleven largest markets being reviewed four times per year. Beginning in the Fall of 1984, BBM will increase the frequency of its network surveys to 52 times a year.

Both companies rely on weekly viewership diaries that are filled out by samples of television households. BBM's sample size is reputed to be substantially larger than Nielsen's; in Toronto, for example, the former's sample is 1320 diaries by comparison with Nielsen's 570.

Typical station costs for these services (i.e., not including customized market surveys) range from $10,000 to $50,000 depending on station and market size. Both Nielsen and BBM determine a station's fee on the basis of (a) its highest prime-time spot rate and (b) the number of times its market is measured. BBM estimates that the cost of a returned diary is roughly $17.00.

In general terms, the existing measurement system is adequate for advertiser confidence in respect of all major and medium markets and for all network programs. In a performance-based system, it would not be adequate for review of station performance in many smaller markets because in these markets sample sizes are too small to permit accurate measurement for individual programs. Assuming that existing measurement

procedures were expanded to ensure provision of Nielsen's or BBM's level of service to major and medium markets to all markets, and assuming that the cost of doing this was based on straight line projection of the cost of the increased number of returned diaries, (i.e., not including expanded system development costs) it is possible to estimate the cost of expanding the rating companies weekly network reporting service to build up sufficient sample size in smaller markets.

Currently, for example, BBM's national network sample size is about 3,000 diaries. Measurement in smaller markets could be improved considerably if the overall sample size is increased. Based on the $17 per returned diary estimate the cost of increasing the sample size by the minimum amount acceptable to BBM, for example, (see Appendix B) would increase the national sample cost from $51,000/week to $77,000/week--an annual increment of roughtly $1.4 million. To these costs must be added the survey companies' projection of research and development costs tied to determination of acceptable procedures for small markets and for programs drawing extremely limited viewership, estimated at between $100,000 and $150,000.

It is fair to assume that individual stations would, unprompted, enhance measurement procedures for daytime programming aimed at re-patriation of Canadian audiences to

US stations and that costs for this would fall within the range of projected revenue increases tied to adjusted commercial rates for this part of the schedule. Indeed, such enhanced procedures would enable effective measurement across the full broadcast day in all but the very smallest markets where revenue potential would not justify increased investment in measurement.

Assuming broad acceptance by the CRTC of the research methodology now employed by the major survey companies and assuming enhancement of the comprehensiveness and frequency of their measurement, the Commission will want to establish targets within an acceptable range of sampling error. That is, targets will be defined as a range based on the probability and confidence interval that the chosen research methodology imposes on data. For example, an Estimated Standard Error of plus or minus two with a sample of 400 and a rating of 20 percent market share would mean that a target of, say, 30 percent share for a station's Canadian programs in a specified time period would have to be expressed as 28 to 32 percent.

Presumably, the Commission would also wish to maintain a watching brief vis individual markets such that special surveys could be used to corroborate the findings of the

research companies. Such a watching brief could involve the Commission in conducting or commissioning its own surveys in selected markets, some at the same time as those being undertaken by the survey companies, some in other periods.

Each of the options discussed in Section 3 has different implications for measurement. Option One, for example, assumes that a performance based system is predicated on enhancement of measurement relative to all the considerations discussed above.

Option Two, which envisages audience targets for the daytime schedule only, would also require considerable enhancement of measurement comprehensiveness and frequency. Indeed, since stations would be concentrating their Canadian programming efforts in particular periods of a part of the schedule that is currently not comprehensively measured, a particular emphasis would be needed in all but the largest markets.

Option Three poses the smallest measurement problems. Once targets were agreed on a station by station basis, only a watching brief would be necessary for the day time. Existing measurement procedures, assuming an increase in sample size in smaller markets, would probably be adequate for peak viewing periods, with perhaps some increase in measurement vis the selected incentive periods of the schedule. Appendix

"B" depicts Nordicity Group's analysis of expanded measurement requirements for Option Three, based on an extension of the measurement companies present 52-week network reporting scheme. (According to the measurement companies, the network research reporting system, as compared to that for local markets, would be easier and less costly to enhance to the level required.)

6.0 A Three Year Trial

A performance-based approach to Canadian content regulation could profoundly change Canadian broadcasting. It is fundamentally a tool to permit maximum broadcaster scheduling flexibility without lessening commitment to the goals of the Broadcasting Act. It also permits the regulator to introduce practical incentives to ensure the provision of popular programming through the commercial sector. Moreover, it has the potential to affect the historical relationship of individual stations and network operations.

The final Section of this report describes an experimental or trial introduction of performance-based regulation based on Option Three. This would constitute a three year trial, wherein provisions would apply to all provately owned stations for the Monday to Friday schedule. Broadcasters not wanting to take advantage of the incentives of day time quota relief, or increased credit for good performance of entertainment programming in prime time, would remain subject to existing quota requirements.

Although beyond the scope of this report, a performance-based system will certainly raise special challenges to the modus operandi of the public network, which depends on both privately owned and its own stations to maintain the level of local service and to distribute its signal nationally. A privately owned CBC affiliate's aspiration to maximize

audiences in day time programming, for instance, could lead to conflict with the network with respect to local exhibition of some network programs. The station might want to replace a particular program with an acquired American item, while the federally mandated network has other reasons for retaining the program.

The relations that the CBC has with its affiliated commercial broadcasters is not properly the subject matter of this report. How the public part of the broadcasting system would evolve with the introduction of a performance based approach for the private part of the system is a complex issue indeed and most probably requires separate study. It is clear, however, that the application of the proposals in this report are not appropriate for CBC affiliates. In order to ensure regulatory fairness during the trail period, CBC affiliates, who control only a small portion of the peak time schedule, could be relieved of day time content requirements and a careful watching brief kept on their performance in this period, possibly with a view to establishment of a "discounted" audience target for day time programming at some point during the trial.

The three year duration of the trial is suggested in view of the time it takes for broadcasters to develop sustainable, competitive programs to be scheduled in peak viewing periods that would be capable of recovering audiences to Canadian programs forfeited as a consequence of complete scheduling

and source of program flexibility in the day time. The three year test period will also enable broadcasters and the regulator to experiment with measurement techniques, to establish realistic targets, and to explore the usefulness of the suggested tribunal, and other measurement/enforcement initiatives and other incentives.

The performance based experiment would have to be offered to all private broadcasters as opposed to a one market trial because of the need to be even handed and equitable in offering potentially very lucrative incentives to all broadcaster businesses, not just some. And, as broadcasters are quick to point out, it is not possible to find a single market large enough to provide a real experimental base that is totally contained and has no spillover into adjacent markets.

6.1 Year One

In the first year of the proposed trial, broadcasters would work closely with the regulators to establish audience targets on a station by station basis. This would involve detailed review of available historical data on the performance of selected Canadian programs in the day chosen for trial. The CRTC would also develop criteria for

measurement of program performance in the trial period, especially with reference to those stations that are not currently surveyed frequently enough by the two large research companies.

Early in the first trial year, broadcasters would commence development of programs to be considered for scheduling in one or more selected peak time viewing periods. Presumably, changes to the day time schedule would coincide with the introduction of these programs into the prime time schedule.

6.2 Year Two

Program development and exhibition would continue in the second year, and broadcasters and the regulator would begin to review performance. At the end of this year, an extensive evaluation of audience and programming achievements would be carried out. Canadian content credits would also be awarded, where appropriate, and broadcasters would be allowed to carry these forward into the third year of the trial.

By the end of year two, agreement on both measurement and application of incentive levels should be in place. If it is judged appropriate, an appeal tribunal would also be established in this year to review conflicting interpretations of audience data and to render judgements on allowable content credits.

6.3 Year Three

In the final year of the trial, it may be appropriate to hold public hearings on the suitability of a performance-based system for national, comprehensive implementation. Certainly, the Commission should undertake an in-depth system evaluation that would include analysis of the impact of trial provisions on audiences, advertising revenues, and program type and quality. This evaluation would also have to include institutional and industrial impact analysis--e.g., effects on the CBC, independent production, employment, etc.

These evaluations should lead, of course, to a go/no-go decision by the CRTC with respect to a) expansion of the trial to include week ends, b) adjustment of credits and other provisions such as extension of the trial, or c) phased national implementaion of an ongoing performance-based system.

7.0 Conclusion Note

The concept of replacing a supply-side form of regulation with an audience or demand-side set of performance rules appears simple in its stating. That the "system" should somehow be producing more viewers to Canadian programs has not been contested by broadcasters throughout this project. Rather, the concern broadcasters have with the notion is rooted in their unwillingness to be regulated by a criterion over which they have no control--actual performance in the marketplace.

Nordicity Group, therefore, in many consultations with MTC and broadcasters has, in this report, created an alternative approach to complete regulation by performance. The main elements of this approach are that the regulator would adopt a more supervisory role and stance during a three year period whereby broadcasters would be encouraged through incentives to apply increased resources in the pursuit of more Canadian viewers.

The basic offerings of encouragement to the broadcasters are two fold: 1) an opportunity through eliminating day time content quotas, to make that part of their operations much more economically efficient; and 2) a sufficiently attractive incentive for prime time exhibition that broadcasters will choose to take on the increased risk.

Above all, a real attempt has been made to remove the punitive aspects of a "new" system that carries considerable risk to the perceived steady state of current regulation for all stake holders.

Appendix A

Option Three - How It Could Work

This appendix illustrates how Option Three (performance based regulation and prime time incentives) would work by replacing day-time programming with foreign content and replacing one hour of prime time with new or enhanced Canadian production (a one hour drama or two, one-half hour sitcoms).

In this example, Toronto/Hamilton is the selected market and CFTO, a CTV affiliate, is the selected station.

Targets

The weekly audience target in this case is 910,000 viewers. This viewer target level is based on CFTO's average audience for day-time Canadian programs that would be lost in the new system. (See Exhibit A-2 for computation of CFTO average day-time audience).

In the following scenario, prime time targets and required audience share would be as follows:

Exhibit A-1

Required Share to Achieve Target

Time Period	Average Audience (viewers 2+)	Audience Target	Required Share to to achieve Target	CFTO's Typical prime time share
	(000s)	(000s)	(%)	(%)
Drama:				
7 to 8 p.m.	1,950	910	46	20
Sit Com:				
7 to 7:30 p.m.	1,950	400	21	20
9:30 to 10 p.m.	2,100	510	21	20

With the new content credit formula as described in Option Three, if CFTO achieved its prime time audience target, it would earn a 200% content credit. On an annual basis, the station would be entitled to reduce its prime time Canadian content from 1,092 hours to 913 hours.

Replacement Programming - Prime Time

In order to "make room" in its prime time schedule, CFTO could choose, for example,to replace the half hour program "Circus" which draws an average audience of about 85,000 viewers in Toronto/Hamilton and "Thrill of a Lifetime" which draws an average audience of about 65,000 viewers. By replacing these programs CTV could save $2.6 million on "Circus" (at $100,000 per episode) and $2.24 million on "Thrill of a Lifetime" (at $86,000 per episode). The replacement of these programs represents a potential loss of 150,000 viewers of Canadian programs.*

CFTO's share of the costs saved by removing these shows is approximately $970,000 (20% of CTV's costs).

On the other hand program production costs for one hour of Canadian drama are $500,000 to $800,000. For 26 hours, the total cost would therefore be in the $13 to $20 million range. Assuming the CTV network pays one-third of production costs, then its total costs will amount ot $4 to $6 million. CFTO's share of total network costs will be $800,000 to $1.2 million (at 20% of total costs).**

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* These "lost" viewers have not been added to the targets derived from cummulative daytime viewing of Canadian programming as shown in Exhibit A-2. Using this basis for determining targets already yields required prime time share achievement that is in excess of current performance. In this example, adding the prime time loss would mean a further 2 to 9% share increase.

**The other "one third" required by the Broadcast Program Development Fund, presumably from the private producer or industry, would expect to see a return through either sharing in broadcast advertising revenues (which would reduce net return to broadcaster) or through domestic sale to other service providers (Pay TV, etc.) or export sales.

Replacement Programming - Day-time

The cost of CFTO's daytime programming (local and share of network production) is in the $740,000 to $800,000 range as shown in the following exhibit:

Exhibit A-2

CFTO Day-Time Audience and Program Cost by Time and Program

MARKET: Toronto/Hamilton
SAMPLE STATION: CFTO

Time	Program	Production Origin	Averge Daily Audience	Cumulative Weekly Audience	Estimated Annual Program Cost	CFTO's Share of Program Cost
			--viewers 2+ (000s)--		($000)	($000)
9-9:30 a.m.	Toronto Today	local	27.3	136.5	$205-300	$250-300
9:30-10 a.m.	Romper Room	network	30.7	153.5	100-150	20 - 30
10-10:30 a.m.	What's Cooking	network	16.0	80	150-200	30 - 40
10:30-11 a.m.	Just Like Mom	local	9.6	48	150-200	150-200
11-11:30 a.m.	Definition	network	12.8	64	200	40
11:30-noon	Guess What?	network	12.8	64	200	40
12-12:30 p.m.	Kid's Corner	local	33.6	168	150	150
1-2 p.m.	Don Harron	network	39.0	195	300-400	60 - 80
			182	910	$1,500 - 1,900	$740 - 880

The estimated cost of replacing day-time Canadian programming with U.S. programming is roughly 30% of the cost of Canadian programs replaced, or $220,000 to $265,000 annually for a net day-time program cost savings of approximately $500,000.

Advertising Revenue

Day-time annual advertising revenues earned under current rates amount to $2.89 million as developed in the following chart:

Exhibit A-3

Annual Day-time Advertising Revenue

Time Period	Spots Available	Spots Sold (1)	Rate per 30 sec./ spot	Annual Revenue
				($ millions)
9 - noon	72	54	$130	$1.40
12 - 12:30 p.m.	12	9	$250	$0.44
1 - 2 p.m.	24	18	$300	$1.05
				$2.89

Notes:

1. Assume 75% of total available spots are sold.

2. Annual revenue calculated as follows:
   54 spots x $130/spot x 5 days/week x 52 weeks/year less 25% discount for agency fees, cash discount, continuity and package buys.

By introducing a new 30 sec. spot rate of $170 for the 9 to noon time slot, additional annual revenues of $400,000 are added for a new annual total of $3.29 million.

Financial Summary - One Station Example*

	Savings/ Revenue Gain	Costs
	--$000's--	
Remove current day-time programming	740-880	
Replace day-time with U.S.		220-265
Increase day-time advert. revenue	400	
Remove current Cdn. prime time hour	968	
Replace with one hour of Cdn. drama		800-1,200
Total	$2,108-2,248	$1,020-1,465
Net Savings	$783-$1,088	

* Note: Provision for increased measurement costs has not been included nor have potential additional revenues from export sales.

Financial Summary - National*

The following provides a financial summary based on a possible national application of Option 3. Because of data availability and computational estimate inaccuracies, these figures should be viewed as very rough order of magnitude and illustrative rather than definitive.

	Savings/ Revenue Gain	Costs
	--$ millions--	
Remove current day-time programming	20-25	
Replace day-time with U.S.		3-5
Increase day-time advert. revenue	9	
Remove current Cdn. prime time hour	10	
Replace with one hour of Cdn. drama**		10-17
Total	$39-44	$13-22
Net Savings	$ 17-31	
less: Net Increase in Measurement Costs		$1.4
Overall Potential Savings	$ 16-30	

*For reference purposes, total private broadcaster revenues were approximately $746 million (Statistics Canada, 1982)

**These costs represent the broadcaster share of total costs. The investment in programming is likely to be in the $30 to $50 million range.

Appendix B

Expanded Measurement Requirements for Option Three

Extended Market	Current sample size for BBM network survey (1)	Minimum Increase in sample required (2)	Cost of additional sample (3)	Total Cost
			($)	($)
ONTARIO				
Toronto	650	--	--	$11,050
Ottawa	100	--	--	1,700
Kitchener	100	--	--	1,700
London	100	--	--	1.700
Windsor	100	--	--	1,700
Hamilton	100	--	--	1,700
Barrie	10	65	1,105	1,275
Kingston	10	65	1,105	1,275
Peterborough	10	65	1,105	1,275
Wingham	10	65	1,105	1,275
Sault St. Maire	10	65	1,105	1,275
Sudbury	10	65	1,105	1,275
Timmins	10	65	1,105	1,275
Thunder Bay	20	65	1,105	1,275
	1,230	520	$8,840	$29,750
QUEBEC (4)				
Montreal	700	--	--	11,900
Rest of Quebec	310	--	--	5,270
	1,010	--	--	17,170
MANITOBA				
Winnipeg	100	--	--	1,700
Brandon	80	--	--	1,360
	180			3,060

Extended Market	Current sample size for BBM network survey (1)	Minimum Increase in sample required (2)	Cost of additional sample (3)	Total Cost
			($)	($)
SASKATCHEWAN				
Regina-Moose Jaw	75	--	--	1,275
Saskatoon	50	25	425	1,275
Swift Current	20	55	935	1,275
Yorkton	--	75	1,275	1,275
Lloydminster	--	75	1,275	1,275
Prince Albert	--	75	1,275	1,275
	145	305	5,185	7,650
ALBERTA				
Calgary	100	--	--	1,700
Edmonton	100	--	--	1,700
Medicine Hat	--	75	1,275	1,275
Red Deer	--	75	1,275	1,275
	200	150	2,550	5,950
BRITISH COLUMBIA				
Vancouver	135	--	--	2,295
Victoria	100	--	--	1,700
Dawson Creek	--	75	1,275	1,275
Okanagan/Kamloops	--	75	1,275	1,275
Prince George	--	75	1,275	1,275
Terrace-Kitimat	--	75	1,275	1,275
	235	300	5,100	9,095
Total	3,000	1,275	$21,675	$72,675
Total Annual Cost				$3,779,100
Atlantic Canada (5)	--	250	4,250	221,000
Total Annual Cost - All Canada				$4,000,100

1. BBM's current sample size for its network survey is 3,000 returned diaries. Breakouts by extended market (EM) are rough order estimates.

2. In order to undertake an audience measurement analysis in a specific market, BBM requires a minimum of 75 returned diaries per demographic grouping (e.g., adults 18 to 49).

3. Based on an estimate of a $17 cost per returned diary.

4. It is assumed that the sample in Quebec will not have to be increased because measurement will apply only to English television viewing.

5. Presently, the network sample does not include viewers in the Atlantic provinces. If the extended sample is to include these viewers, then it is reasonable to assume that at least another 250 diaries would be added at an additional cost of $221,000 annually.